

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05 AGRE-00 CU-02

DHA-02 IO-13 /115 W

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R 031800Z SEP 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5174

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

AMEMBASSY LISBON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

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AMCONSUL BELFAST

AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 13978

E.O. 11652: GDS

TAGS: PGOV, PINT, EGEN, PFOR, UK, EFIN

SUBJECT: AUGUST IN BRITAIN

REF: LONDON 12255

1. IT MAY BE JUST THE SUMMER DOLDRUMS, BUT THERE DID NOT SEEM TO BE MUCH TO CHEER, OR EVEN SMILE, ABOUT LAST MONTH IN BRITAIN. THE COUNTRY'S WORST DROUGHT IN SEVERAL HUNDRED YEARS CONTINUED. LARGE TREES DIED IN THE EAST, SOUTH EAST. MIDLANDS AND SOUTH WALES. FLOWERS AND SHRUBS DIED MOST EVERYWHERE IN ENGLAND. AS UK WEATHER EXPERTS FORECAST MORE SUN THROUGH THE FALL, AUTUMN AND WINTER CROPS WERE THREATENED AND FARMERS CALLED PLAINTIVELY FOR IMMEDIATE DEVALUATION OF THE GREEN POUND. MORE OMINOUS WAS CONCERN THAT WATER SHORTAGES MIGHT EVENTUALLY AFFECT INDUSTRIAL OUTPUT.

2. AUGUST ALSO SAW WHAT COULD BE THE EARLY STAGES OF ANOTHER SORT OF CYCLE. DURING THE LAST WEEKEND OF THE MONTH, THE ANNUAL WEST INDIAN NOTTING HILL CARNIVAL IN LONDON DREW A CROWD OF 150,000 AND PRODUCED WHAT THE POPULAR PRESS HERE IS CALLING A RACE RIOT. CARS WERE BURNED, STONES THROWN, STORES LOOTED, AND 325 POLICE WERE INJURED IN BATTLES WITH GANGS OF YOUTHS. ALTHOUGH SOME WHITE HOOLIGANS ALSO FOUGHT THE BOBBIES, THE BLACKS TOOK THE HEADLINES.

IN AN AFTERMATH EERILY FAMILIAR TO AMERICANS, THE CARNIVAL'S ORGANIZERS COMPLAINED OF POLICE PROVOCATION, LONDON'S POLICE COMMISSIONER SAID HIS MEN WOULD NOT ABDICATE THEIR RESPONSIBILITY TO ENFORCE LAW AND ORDER IN THE STREETS, AND THE POLITICIANS DEMANDED AN OFFICIAL INQUIRY. MEANWHILE, THE ROOTS OF IMMIGRANT DISCONTENT GO ON DIGGING DEEP: PERVASIVE UNEMPLOYMENT AMONG THE URBAN YOUNG; HOMELESSNESS IN THE UK'S WEST INDIAN AND ASIAN GHETTOS; AND THE BITTER FEELING -- ENCOURAGED BY MANY WHITES --

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THAT IMMIGRANTS HERE ARE STRANGERS IN A STRANGE LAND. ALL TOLD, OVER A MILLION AND A HALF BRITISH CITIZENS BORN OF THE IMPERIAL LEGACY HAVE COME HOME' AND THE SOCIAL PROBLEMS HAVE ONLY JUST BEGUN.

3. WHILE THE SUN SHONE ON AND ON AND THE DROUGHT GOT WORSE, THE RECENT PERFORMANCE OF THE ECONOMY DID LITTLE TO LIFT THE SUMMER GLOOM. WEAK DEMAND FOR BRITISH EX-

PORTS STUNTED THE EXPECTED ACCELERATION IN THE RATE OF ECONOMIC RECOVERY IN THE SECOND QUARTER. AS A RESULT, UNEMPLOYMENT HAS CONTINUED TO INCH UP. 1.3 MILLION (SEASONALLY ADJUSTED) WERE OUT OF WORK IN AUGUST. MARKEDLY INCREASING THE STRAIN ON THE SOCIAL CONTRACT BETWEEN THE GOVERNMENT AND ORGANIZED LABOR. WHEN THIS IS ADDED TO THE SHARP JULY SPURT IN THE MONEY SUPPLY-PERHAPS A HARBINGER OF RENEWED INFLATION, THE APPARENT SECOND QUARTER RETURN TO DESTOCKING, AND THE LARGE JULY VISIBLE TRADE DEFICIT, THE WORRIED LOOKS OF HMG ECONOMIC POLICY MAKERS ARE EASY TO UNDERSTAND.

4. WHILE THE TWO MAIN MOTORS OF RECOVERY -- EXPORTS AND INVESTMENT -- ARE SHOWING SIGNS OF STALLING, THE RECOVERY HAS NOT ENDED. SURVEY EVIDENCE INDICATES THAT BOTH EXPORTS AND INVESTMENT ARE EXPECTED TO TURN IN STRONG PERFORMANCES OVER THE COMING YEAR. INCREASED PRIVATE SECTOR BORROWING, LARGELY RESPONSIBLE FOR THE RECENT RISE IN THE MONEY SUPPLY, CAN ALSO BE SEEN AS AN INDICATION OF BUSINESS CONFIDENCE. WHAT IS LACKING AND CRITICALLY NECESSARY IS THE TRANSLATION OF THE SURVEY EVIDENCE AND THE IN-

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AMCONSUL BELFAST
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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 13978

CREASED BORROWING INTO RISING INVENTORIES, NEW PLANT AND EQUIPMENT, AND MORE BUOYANT EXPORTS.

5. WITH MANY OF THE MAJOR QUARTERLY ECONOMIC FORECASTS APPEARING OVER THE COMING WEEKS, THE SPRING AND SUMMER HESITATION WILL PRODUCE SERIOUS SCEPTICISM THAT THE GOVERNMENT'S MOST RECENT GROWTH TARGET (4.5 PERCENT OVER THE YEAR THROUGH JUNE 1977) CAN BE ACHIEVED. BUT THERE IS LITTLE THAT HMG CAN DO OTHER THAN SOLDIER ON WITH ITS CURRENT POLICY. RETAIL PRICE INFLATION HAS BEEN CUT TO 12-13 PERCENT. BOTH CONSUMER AND PUBLIC CURRENT SPENDING SEEM SET TO REMAIN ON A PLATEAU. A SECOND YEAR OF WAGE RESTRAINT WILL CONTINUE TO EASE PRESSURE ON LABOR COSTS.

6. YET, THE CURRENT ANXIETY SEEMS LIKELY TO LEAD TO ANOTHER OF THE PERIODIC CRISES WHICH HAVE PUNCTUATED THE PRESENT GOVERNMENT'S EFFORTS TO GUIDE THE ECONOMY OUT OF THE RECESSION. AFTER MORE THAN A YEAR, THE PATIENCE OF

MANY OF ITS SUPPORTERS IS PERFORATED. THE UNIONS ARE ESPECIALLY UNHAPPY ABOUT UNEMPLOYMENT AND PUBLIC EXPENDITURE CUTS. BUT NOW AS TWELVE MONTHS AGO THEY HAVE NO ACCEPTABLE ALTERNATIVE TO BACKING THE LABOR GOVERNMENT. THIS LEAVES HMG CONVINCED OF THE ESSENTIAL VALIDITY OF ITS ECONOMIC STRATEGY AND INTENT ON OPPOSING ANY FUNDAMENTAL TRADE UNION OR LABOR PARTY ASSAULTS ON THAT STRATEGY. IF, REACTING TO PRESSURES FROM THE SEPTEMBER TUC AND LABOR PARTY CONFERENCES, HMG MUST MAKE SOME CONCESSION (LIMITED IMPORT CONTROLS, POSTPONEMENT OF SOME PLANNED CUTS IN PUBLIC SPENDING, ETC.), IT WILL BE WELL WATERED DOWN AND GRUDGINGLY GIVEN UP.

7. ADD TO ALL THESE PROBLEMS THE FACT THAT PERHAPS THE FIERCEST MONSTER OF ALL. DEVOLUTION FOR SCOTLAND, LIES IN WAIT FOR THE GOVERNMENT THIS FALL. IN AUGUST, HMG RE-CONFIDENTIAL

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LEASED A SUPPLEMENTARY WHITE PAPER ON DEVOLUTION. A REFINEMENT OF THE 1975 WHITE PAPER, IT WAS INTENDED TO MOVE THE GOVERNMENT, THE COMMONS AND THE COUNTRY ALONG TOWARD THAT MOMENTOUS AFTERNOON WHEN THE DEVOLUTION BILL IS INTRODUCED AT WESTMINSTER. THE NEW PLAN PARES THE POWERS OF THE SECRETARY OF STATE FOR SCOTLAND -- IT MAKES HIM LESS LIKE A VICEROY OF THE RAJ -- AND STRENGTHENS THE ROLE OF THE JUDICIARY. BUT THE NEW WHITE PAPER DID NOT ADDRESS THE NAGGING ISSUES OF THE SCOTTISH ASSEMBLY'S REVENUE-RAISING AUTHORITY, PROPORTIONAL REPRESENTATION AND SCOTTISH OVER-REPRESENTATION IN THE COMMONS. IN FACT, THERE ARE SO MANY UNANSWERED QUESTIONS ON DEVOLUTION LYING AROUND THAT IT WILL TAKE EXTRAORDINARY CUNNING FOR JIM CALLAGHAN AND THE LABOR GOVERNMENT TO AVOID TRIPPING OVER AT LEAST ONE OF THEM. AND THE TUMBLE -- MAY BE AS EARLY AS NEXT SPRING -- COULD BE CONSIDERABLE. PERHAPS EVEN ALL THE WAY INTO OPPOSITION.

8. FINALLY, OF COURSE, THERE IS ALWAYS NORTHERN IRELAND.

9. BRITISH MINISTERS FACE A ROUGH AUTUMN AND WINTER.

ARMSTRONG

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